Report on Health Policy Options

A Presentation to the Senate Finance Committee

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Combined Report Due Before 2008 Legislative Session

- Uninsurance among Adults 19-29 Study
  - HB 1057 enacted
- Personal Responsibility Study
  - HB 572 enacted
- Health Insurance Exchange Study
  - SB 149 and HB 754 not enacted
  - Letter from Chairmen Middleton and Hammen

Health Care Coverage for Young Adults (HB 1057)

- Approximately 240,000 Marylanders, ages 19 to 29, reported no insurance coverage during the year (2005-06) up from 200,000 in 2004-05.
  - The resulting uninsured rate rose significantly from 26% in 2004-05 to 30% in 2005-06.
- Aging out of coverage:
  - Private Coverage
    - In private coverage, at age 19, most young adults are removed from their parents' health plans unless they are full-time students.
    - Dependent coverage for full-time students typically ends between ages 23 to 25 under most private health insurance plans.
  - Public Coverage
    - Medicaid and SCHIP eligibility for low-income children extends through age 18 and ends at age 19.
    - Medicaid coverage for childless adults is often limited to those who are disabled, elderly, or pregnant.

Targeting "Young Immortals"

- Research on lifestyles and preferences of uninsured young adults indicated that they are interested in health insurance, if it met their needs and was offered at the right price.
- Health insurers have begun to market basic plans to adults ages 18 to 34.
- Several large carriers currently offer such plans, with a monthly premium of $39 to $160 and annual deductibles of as much as $5,000.
- Individual health plans sold to young adults increased by 6.2% to 3.8 million from 2000 to 2005.

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Roll over the question mark for Tonik Tips

	Thrill-Seeker	Part-time Daredevil	Calculated Risktaker
Ave. Monthly Cost	$69	$81	$90
Doctor Visit	$20 (4 visits/year)	$30 (4 visits/year)	$40 (unlimited visits)
Annual Deductible	$5,000	$3,000	$1,500
Prescription Drugs	$10	$10	$10
ER Visit	$100	$100	$100
Inpatient Hospital	$0 after deductible is met	$0 after deductible is met	$0 after deductible is met
Dental Deductible	$25	$25	$25
Cleaning & Exams	$0	$0	$0
Fillings	You pay 20%	You pay 20%	You pay 20%
Vision Discount	$50	$50	$50
Download Details			
	APPLY	APPLY	APPLY

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What's the Deal with Dental?

All three plans come with the same Blue Cross PPO dental maintenance plan. Basically checkups, cleanings and x-rays are free. If you need a filling, you pay the $25 deductible and 20% of the procedure. BC Life and Health picks up the remaining 80%. Tonik doesn't cover cosmetic or major dental like root canals. Download the dental details. Now you have no excuse not to keep your choppers clean and healthy.

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Options

- Extend eligibility for dependents under private coverage beyond age 18 or 19
  - 15 states, including Maryland, have extended dependent benefits to young adults that are not linked to student status (NCSL)
- Ensure that colleges and universities require all full-time and part-time students to have health insurance, and that they offer health insurance coverage to both
  - According to 2007 report by The Commonwealth Fund, 38% of public and 79% private universities and colleges require students to have health insurance as a condition of enrollment
  - 6 states (CA, ID, IL, MA, MO, NJ) have either a state mandate or higher education governing board that mandates coverage for full-time undergraduate students that are U.S. citizens
- Medicaid/SCHIP Buy-in
- Extended Medicaid coverage for foster youth (Chafee option)

Personal Responsibility (HB 572)

- Principle:
  - Everyone who can reasonably afford health insurance coverage must obtain it
- Rationale:
  - Assure a representative risk pool, with the good risks as well as the bad purchasing insurance
  - Reduce the number of free-riders and their effect on others' premiums
- Issues:
  - Adopting the personal responsibility principle for everyone would require some combination of employer support and government subsidy
  - Personal responsibility could be put into place without subsidies if it only applies above a certain income
    - At what incomes do penalties apply?
    - What are the penalties?
      - Loss of personal exemptions
      - Penalty based on some portion of the cost of coverage
    - Implementation
      - What coverage qualifies?
      - How is coverage verified?
      - How are penalties applied?
      - Can a bond substitute for health insurance?
      - Are there religious exemptions?

Modeling Personal Responsibility

Penalty Options

	Income Level	Penalty
Option 1	**Families over 300% FPL**	▪75% of HDHP ▪Phased-in for families btw. 300-500% FPL ▪Families over 500% FPL pay full penalty
Option 2	**Families over 400% FPL**	▪75% of HDHP ▪Phased-in for families btw. 400-500% FPL ▪Families over 500% FPL pay full penalty
Option 3	**Families over 300% FPL**	▪$1,000 per individual/$2,000 per family ▪Sliding scale for families btw. 300-500% FPL ▪Families over 500% FPL pay full penalty
Option 4	**Families over 400% FPL**	▪$1,000 per individual/$2,000 per family ▪Sliding scale for families btw. 400-500% FPL ▪Families over 500% FPL pay full penalty

Changes in Coverage Under The Individual Responsibility Proposals in Maryland in 2007 (1,000s)

Primary Source of Coverage	Number of People Covered under Current Law	Changes in Coverage Under the Policy Options			
		Alternative Option 1	Alternative Option 2	Alternative Option 3	Alternative Option 4
Employer	3,293	33	32	33	31
Private Non-Employer	139	83	79	100	87
CHAMPUS	82	0.0	0.0	0.0	0.0
Medicare (incl. Dual Eligibles)	643	0.0	0.0	0.0	0.0
Medicaid/SCHIP (excl. Dual Eligibles)	471	0.0	0.0	0.0	0.0
Uninsured	789	(116)	(111)	(133)	(118)
Total	5,417	0.0	0.0	0.0	0.0

Source: The Lewin Group estimates using the Health Benefits Simulation Model.

Change in Health Spending by Stakeholder Group under the Personal Responsibility Proposals in Maryland in 2007 (millions)

	Alternative Option 1	Alternative Option 2	Alternative Option 3	Alternative Option 4
Without Wage Effects				
State and Local Government	($58)	($26)	($42)	($20)
Federal Government	($20)	($18)	($24)	($22)
Private Employers	$62	$57	$61	$55
Households	$179	$145	$177	$145
Total Health Spending	**$163**	**$158**	**$172**	**$158**

Source: The Lewin Group estimates using the Health Benefits Simulation Model.

Types of Exchanges

	Markets	Choice of Plan	Subsidy
Virtual exchange	SGM	Employer	No
SGM Subsidy	SGM	Employer	Yes
SGM Choice	SGM	Employee	Yes/No
Massachusetts Connector	Merged + Traditional SGM	Employee or Employer	Yes, in Connector only
Maryland Plan	Merged	Employee	Yes

Health Insurance Exchange Study

Function of an Exchange:

- Give individuals and employees a choice among health plans
  - If individuals choose the plans, they may be more willing to accept the trade-offs involved
  - Individual choice may increase risk selection among plans
- Structure the market, providing:
  - Better competition among health plans
  - Better comparative information to guide choice
  - Greater flexibility and innovation in plan designs
- Provide portability between jobs, promoting continuity of care
- Make it possible to combine health benefits from several jobs
- Make it simpler for employers to provide health insurance
  - Administrative burdens significantly reduced
  - Provides a way for employers who don't currently offer health benefits to contribute toward health insurance costs
- Efficiently combine individual and employer contributions with:
  - A premium support program for low-income Marylanders
  - Any available Federal tax credits for low-income individuals
- Manage risk selection among plans

Key Design Issues

- Merge individual and small group markets?
- Sole market for the target population?
- Individual responsibility provisions?
- Subsidies for low income?
- Subsidies only for previously uninsured?
- Separate product for subsidized individuals?
- Affordability standards (premium as percent of income)?
- Availability of affordable plan for low income individuals not receiving a subsidy?

MHCC Modeling

Presented During 2007 Session

- Radical Goal to be modeled: Near-universal coverage (>98%) through:
  - Personal responsibility - must have at least catastrophic coverage - no free riders
  - Individual choice - each employee can choose coverage
  - Public responsibility - premium support for low income Marylanders
  - Merge individual and small group markets (including MHIP) - Exchange is the only way to obtain fully insured coverage
  - Assure broad participation through:
    - Serious penalties for remaining uninsured (75% of HDHP)
    - Generous affordability standard - sliding scale

Income Range	Premium as Percent of Income	Income Range (Individual) a/	Income Range (Family of Four) a/
Below 100% FPL	0%	<$10,210	<$20,650
100% - 149% FPL	1%	$10,210 - $15,314	$20,650 - $30,974
150% - 199% FPL	2.5%	$15,315 - $20,419	$30,975 - $41,299
200% - 249% FPL	5%	$20,420 - $25,524	$41,299 - $51,624
250% - 300% FPL	7.5%	$25,525 - $30,630	$51,625 - $61,950
Over 300% FPL	No Limit	More than $30,630	More than $61,950

a/ Income ranges based on 2007 poverty guideline, Federal Register, Vol. 72, No. 15, p. 3147-3148 (Jan 24, 2007).

MHCC Modeling (cont.)

- Benefit design equivalent to BC/BS Standard plan
- Results:
  - Increases total expenditures on health care
  - Dramatic reduction in the number of uninsured Marylanders
    - Only 2% remain uninsured
  - Equally dramatic cost to the State - $2.5 billion before offsets
    - Roughly $3500 per newly insured person – comparable to other comprehensive reform
    - Redistributes money from tax sources to households, markedly reducing household expenditures on health care, especially those with incomes below 300% FPL
- Resulting questions:
  - Can the price tag be reduced?
    - Target the subsidy to the currently uninsured
    - Require employers to contribute (ERISA challenges certain)
    - Change benefit design from the very generous FEHBP BC/BS Standard Option
    - Reduce expenditures through high-performance networks, better evidence-based incentives
    - Change the affordability standard to require more than 7.5% of income at 300% FPL

New Modeling

- Option 1: Expand Medicaid to 100% FPL for parents
- Option 2: Add a 6 month anti-crowd out provision
- Option 3: Also require employer to pay 1/3 of premium

- Sensitivity analyses:
  - Reduce benefits by 15%
    - Lowers premiums but increases employee out of pocket payments
  - Reduce health care expenditures by 5%
    - Better networks
    - Better incentives to both provider and patient
  - Increase affordability standard at 300% FPL from 7.5% to 10% of income

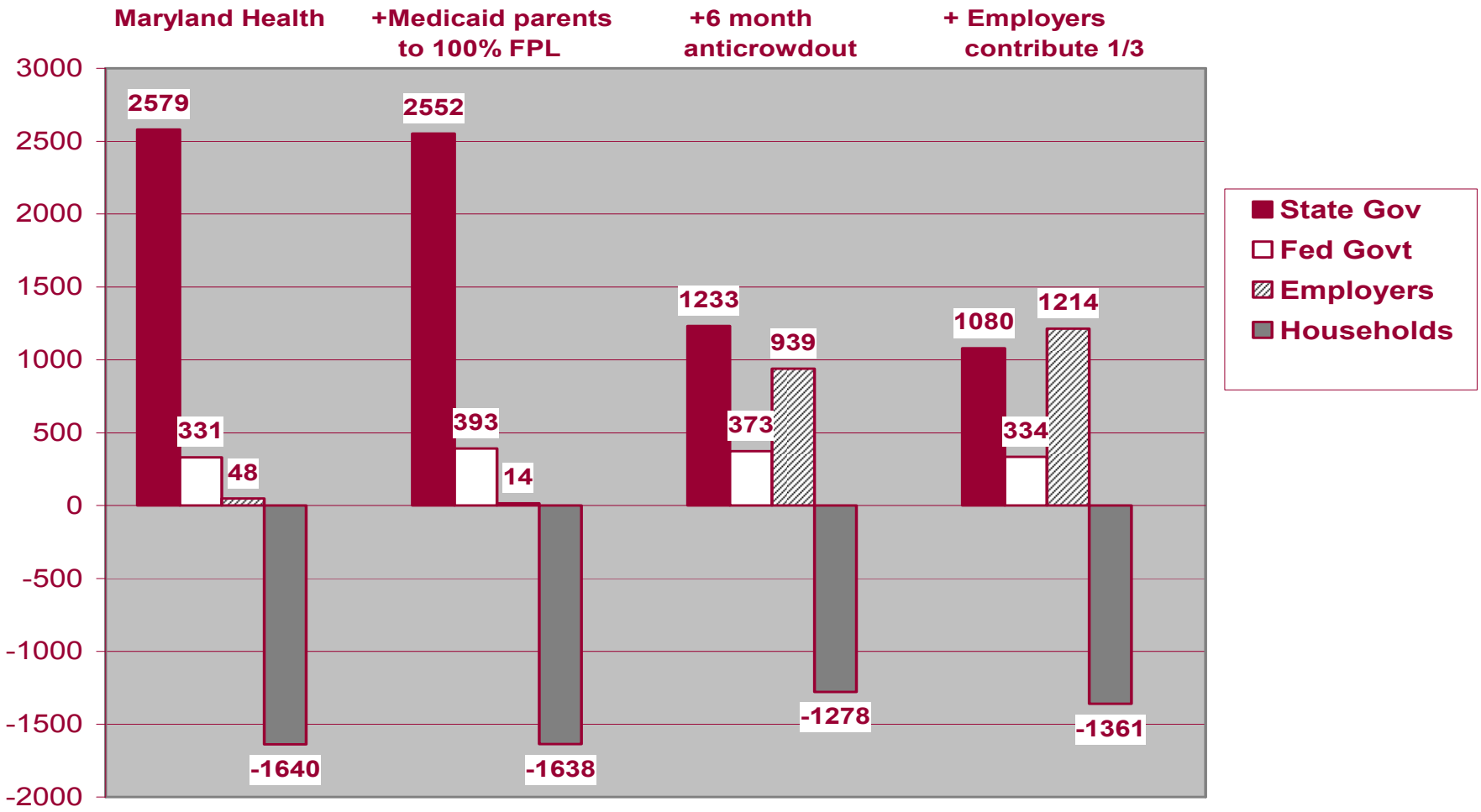
Changes in Coverage Under The Maryland Health Proposal and Alternative Reform Options in 2007 (in 1,000s)

Primary Source of Coverage	Number of People Covered under Current Law	Changes in Coverage Under the Policy Options					
		Maryland Health Proposal	+ Medicaid Parents to 100% FPL	+ 6 Month Anti-Crowd Out	+ 1/3 Premium Paid by Employers	Benefits Reduced 15%	Expend. Reduced 5%
Employer	3,293	577	554	554	554	553	554
Private Non-Employer	139	110	103	103	103	105	103
CHAMPUS	82	0.0	0.0	0.0	0.0	0.0	0.0
Medicare (incl. Dual Eligibles)	643	0.0	0.0	0.0	0.0	0.0	0.0
Medicaid/SCHIP (excl. Dual Eligibles)	471	41	72	72	72	72	72
Uninsured	789	(728)	(729)	(729)	(729)	(730)	(729)
Total	5,417	0.0	0.0	0.0	0.0	0.0	0.0

Source: The Lewin Group estimates using the Health Benefits Simulation Model.

Changes in Healthcare Spending by Government, Employers, and Households

(in $1000's)



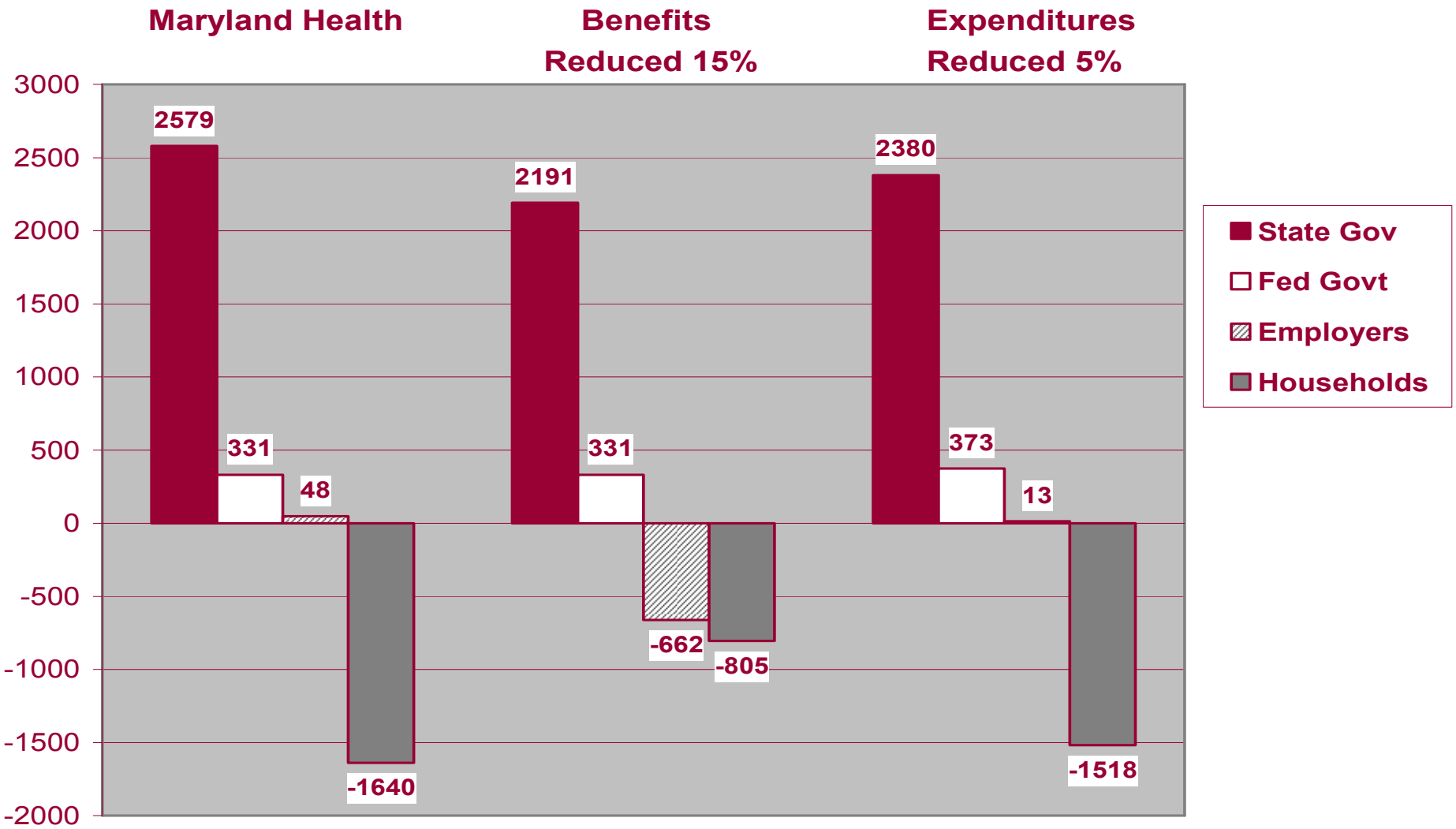
Source: The Lewin Group estimates using the Health Benefits Simulation Model.

NOTE 1: State expenditures could be reduced by the recapture of reductions in uncompensated care from the all-payer system – perhaps $450 million annually.

NOTE 2: Using an affordability standard of 10% of income at 300% FPL reduces state spending by 5-7%

Changes in Healthcare Spending by Government, Employers, and Households

(in $1000's)



Source: The Lewin Group estimates using the Health Benefits Simulation Model.

Reform Strategies Are Interdependent

- Viable insurance pool => broad participation, including young and healthy
- Broad participation => individual responsibility, employer participation
- Individual responsibility => affordable plan
- Individual responsibility => low income subsidies
- Individual responsibility => penalties for free-riding
- Affordable plan => narrower benefits, new incentives
- Acceptance of affordable plan => individual choice and individual plans
- Portability => individual plans
- Individual plans without underwriting => individual responsibility
- Individual choice => exchange
- Combining funding from individual, employer(s), and premium subsidies => exchange

QUESTION: Are there limits to what can be accomplished through incremental reform?